

SURVEY OF BUSINESS TAXES
IN THE SAN FRANCISCO BAY AREA

Prepared and Written by

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ABSTRACT

This is a report on local business taxes in the Bay Area. The report compares municipal license and local property taxes for four hypothetical businesses in five jurisdictions. The five cities considered are: San Francisco, San Rafael, Richmond, Oakland, and San Mateo.

The report assumes that the hypothetical businesses are currently operating in San Francisco and contemplating relocation to one of the other cities. If the businesses move to San Rafael or San Mateo, their annual taxes would be reduced by an average of 14% and 17% respectively. However, if the companies were to relocate from San Francisco to Richmond or Oakland, the annual business taxes would be increased by an average of 9% in both cases.

The report yields three basic conclusions:

1. There is little deviation in the total taxes levied on the hypothetical businesses in the five jurisdictions considered.
2. The property tax on real and unsecured business property is the most important factor in determining the total business tax. Taxes on all types of business property account for approximately 95% of the local taxes paid by a business.
3. The relocation incentive of comparative business taxes can be expected to be minimal. Local taxes are only a small part of the costs faced by a business in making a locational choice. For the hypothetical businesses, total taxes represent approximately 2% of gross receipts, while in reality these taxes represent somewhat less than 2%. The greatest difference in local taxes between the five jurisdictions considered amounts to only one percent of that business' annual gross receipts.

INTRODUCTION

This is a report on a survey to assess the relative impact of local taxes on business operations in the Bay Area. The purpose of the survey is to provide information which will enable local decision-makers to evaluate their business license fees and compare their taxes with the business taxes in other cities and counties in the region. The report is designed to test the hypothesis that the business tax structure is responsible for the decision by business operators to leave a central city and relocate in the surrounding urban area.

The report compares municipal license fees and local property taxes in five jurisdictions in the Bay Area. The following five cities are considered in this report:

- o San Francisco
- o San Rafael
- o Richmond
- o Oakland
- o San Mateo

Four hypothetical businesses were created for analysis in this report. The hypothetical businesses and their characteristics were selected specifically to represent a spectrum of small- to medium-size business enterprises and to test the taxing mechanisms of the various cities involved in the study. The hypothetical businesses are: (1) a company that finishes products like mass-production assembly of living and bedroom furniture (Manufacturing A), (2) a company that manufactures basic products such as screws or ball bearings (Manufacturing B), (3) a general retail company like a hardware or



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variety store (retail), and (4) a company engaged in providing entertainment, in this case, a 24 lane bowling alley (amusement).

For purposes of analysis it is assumed that the four hypothetical businesses are presently located and operating in the City of San Francisco. The several business operators consider the taxes levied on their operations by that City to be excessive. Individually, these operators contemplate relocation to one of four other cities in the region. The following map shows the location of these cities in relation to the City of San Francisco.



SURVEY OF BUSINESS TAXES
IN THE SAN FRANCISCO BAY AREA

Counties in California tax businesses according to the provisions of Article XIII of the Constitution of California. This provides that "[a]ll property in the State . . . shall be taxed in proportion to its value" The article defines property to include "moneys, credits, bonds, stocks, dues, franchises, and all other things, real, personal, and mixed, capable of private ownership" Thus, the buildings, inventory, and equipment of a business enterprise are taxed as property.

In some cases, there are special charges assessed by a county on certain business categories. For instance, most counties require food preparation businesses (restaurants, grocery stores, catering vehicles) to obtain special health permits. Some counties require a special weights and measures permit for businesses using scales. The fees associated with these permits are designed to cover the cost of inspection by authorized county agents. While several Bay Area counties reported requirements for special permit fees, no county levies a general fee on all businesses such as a business license tax.

Because the basic business charge by counties is the business personal property tax, the relative impact of these charges is dependent upon the property tax rate in each county. The property tax rate in the eight counties surrounding San Francisco are presented in the following table.

TABLE 1
COUNTY PROPERTY TAX RATE IN THE
REGION SURROUNDING SAN FRANCISCO

	<u>Secured Property*</u>	<u>Unsecured Property*</u>
Alameda	3.1	3.03
Contra Costa	2.656	2.586
Marin	2.32	2.385
Napa	2.05	2.17
San Mateo	1.6644	1.9175
Santa Clara	2.596	2.626
Solano	2.9382	2.9382
Sonoma	3.25	3.02

The county property tax rate should not be considered alone. Businesses must pay property tax to school districts, special districts, cities, and other independent taxing authorities. Thus, evaluation of the geographic effect of taxes on business operation must consider all property taxes.

Four hypothetical businesses have been selected. Presently these businesses are assumed to be operating in San Francisco and are each considering relocation to one of four other cities in the Bay Area. The cities under consideration are San Rafael (Marin County), Richmond (Contra Costa County), Oakland (Alameda County), and San Mateo (San Mateo County).

*There are two property tax rates used by jurisdictions in California. The secured property tax rate is used in computing the taxes of businesses which own real property. In effect the taxes on business equipment and inventories are secured by the land and buildings. The unsecured property tax rate is used in computing the taxes owed by businesses which do not own the land on which the business is located. In any year the unsecured property tax rate is the same as the secured rate from the previous year. the use of the previous year's rate is necessitated by the difference in the dates when the secured and unsecured property taxes are collected.

Characteristics of the four hypothetical businesses are listed in the following table.

TABLE 2
CHARACTERISTICS OF HYPOTHETICAL BUSINESSES

	Manufacturing A (finishing)	Manufacturing B (basic)	Retail (general)	Amusement (bowling)
Annual Gross Receipts	\$5,000,000	\$5,000,000	\$1,500,000	\$250,000
Number of Employees	100	100	30	12
Inventory	1,000,000	1,000,000	600,000	50,000
Machinery	1,000,000	1,000,000	100,000	250,000
Office Equipment	25,000	25,000	50,000	10,000
Sales Fixtures	-0-	-0-	100,000	50,000
Material Cost	2,500,000	1,500,000	750,000	25,000
Land Value	500,000	NA	NA	NA
Building Value	1,000,000	NA	NA	NA
Improvements Value	NA	NA	NA	250,000
Gross Payroll	1,000,000	1,000,000	300,000	100,000
Utility Cost	10,000	50,000	2,500	5,000
Annual Rent	NA	180,000	30,000	20,000

Though cities in California requires businesses to pay a business license tax, the actual rates of these taxes vary among jurisdictions and types of business enterprise. Table 3 presents the actual business license fee for each of the four hypothetical companies.

TABLE 3
MUNICIPAL BUSINESS LICENSE FEES

	Manufacturing A	Manufacturing B	Retail	Amusement
San Rafael	\$540 ²	\$540 ²	\$190 ²	\$348 ⁵
Richmond	\$660 ²	\$660 ²	\$240 ²	\$605 ¹
Oakland	\$1500 ³	\$738 ⁴	\$900 ¹	\$562 ¹
San Mateo	\$3060 ¹	\$3060 ¹	\$960 ¹	\$288 ⁵

Tables A-1 through A-4 (Appendix) show the computation of total assessed valuation for the four hypothetical businesses. Table 4 presents the total business taxes for the cities considered in this project. For purposes of comparison the secured property tax rate was used in all computations.

¹Computed from gross receipts.

²Computed from the number of employees.

³Computed from the value added to the product.

⁴Computed from the cost of rent, utilities, and gross payroll.

⁵Computed from the number of bowling lanes.

TABLE 4
TOTAL BUSINESS TAXES

		Manufacturing A ¹	Manufacturing B ²	Retail ³	Amusement ⁴
<u>San Rafael</u>	License Property ⁵	\$ 540 82,405	\$ 540 38,680	\$ 190 12,938	\$ 348 9,387
	Total	\$82,945	\$39,220	\$13,121	\$9,735
<u>Richmond</u>	License Property ⁶	\$ 660 104,787	\$ 660 49,186	\$ 240 16,452	\$ 605 11,937
	Total	\$105,447	\$49,846	\$16,692	\$12,542
<u>Oakland</u>	License Property ⁷	\$ 1,500 103,236	\$ 738 48,458	\$ 900 16,209	\$ 562 11,760
	Total	\$104,736	\$49,196	\$17,109	\$12,322
<u>San Mateo</u>	License Property ⁸	\$ 3,060 75,742	\$ 3,060 35,458	\$ 960 11,860	\$ 288 8,605
	Total	\$78,602	\$38,518	\$12,820	\$8,893

¹Assessed valuation \$706,730 (Table A-1).

²Assessed valuation \$331,730 (Table A-2).

³Assessed valuation \$110,960 (Table A-3).

⁴Assessed valuation \$80,508 (Table A-4).

⁵Tax rate \$11.660 per \$100 assessed valuation for rate area 8-031, Marin County.

⁶Tax rate \$14.827 per \$100 assessed valuation for rate area 08036, Contra Costa County.

⁷Tax rate \$14.6076 per \$100 assessed valuation for code area 17-004, Alameda County.

⁸Tax rate \$10.6889 per \$100 assessed valuation for rate area 78-014, San Mateo County.

For comparison, the taxes for the same businesses located in San Francisco appear in the following table. San Francisco uses two alternative methods for computing the business registration or license fee. One computational method computes the fee on the basis of a business' gross receipts while the alternative method computes the fee from the gross payroll. The actual registration tax is the greater of the fees computed by either the receipts tax or the payroll tax. In all cases, the payroll tax was greater than or equal to the gross receipts tax.¹

TABLE 5
HYPOTHETICAL BUSINESS TAXES FOR SAN FRANCISCO

	Manufacturing A	Manufacturing B	Retail	Amusement
Registration	\$11,000	\$11,000	\$3,300	\$ 1,100
Property ²	81,274	38,149	12,760	9,258
Total	\$92,274	\$49,149	\$16,060	\$10,358

¹For the hypothetical businesses considered, the registration fee based on gross receipts was approximately half of the fee based on gross payroll.

²Tax rate \$11.50 per \$100 of assessed valuation.

CONCLUSION

The purpose of this report is to determine the impact of combined business taxes on locational decisions of business operators in the Bay Area. The report compares the municipal license and local property taxes for four hypothetical businesses in five jurisdictions. The business taxes are summarized in the following table.

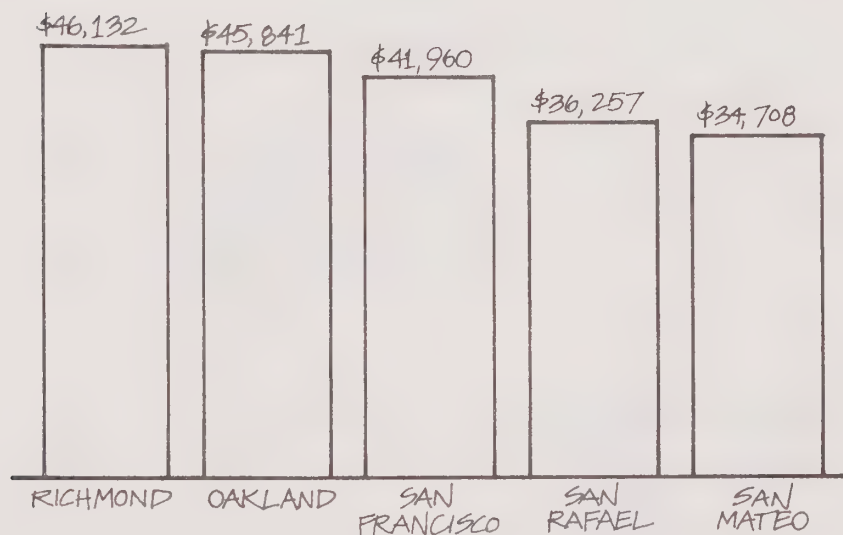
TABLE 6
COMPARISON OF ANNUAL BUSINESS TAXES
IN FIVE BAY AREA JURISDICTIONS FOR
FOUR HYPOTHETICAL COMPANIES

	Manufacturing A	Manufacturing B	Retail	Amusement
San Francisco	\$92,274	\$49,149	\$16,060	\$10,358
San Rafael	82,945	39,220	13,128	9,735
Richmond	105,447	49,846	16,692	12,542
Oakland	104,736	49,196	17,109	12,322
San Mateo	78,602	38,518	12,820	8,893

The report assumes that the hypothetical businesses are currently operating in San Francisco and contemplate relocation to one of the other cities. If the businesses move to San Rafael or San Mateo, their annual taxes would be reduced by an average of 14% and 17% respectively. However, if the companies were to relocate from San Francisco to Richmond or Oakland, the annual business taxes would be increased by an average of 9% in both cases.

There is little deviation in the total taxes levied on the hypothetical businesses in the five jurisdictions considered. The following chart compares the average tax for the hypothetical businesses in each of the five cities.

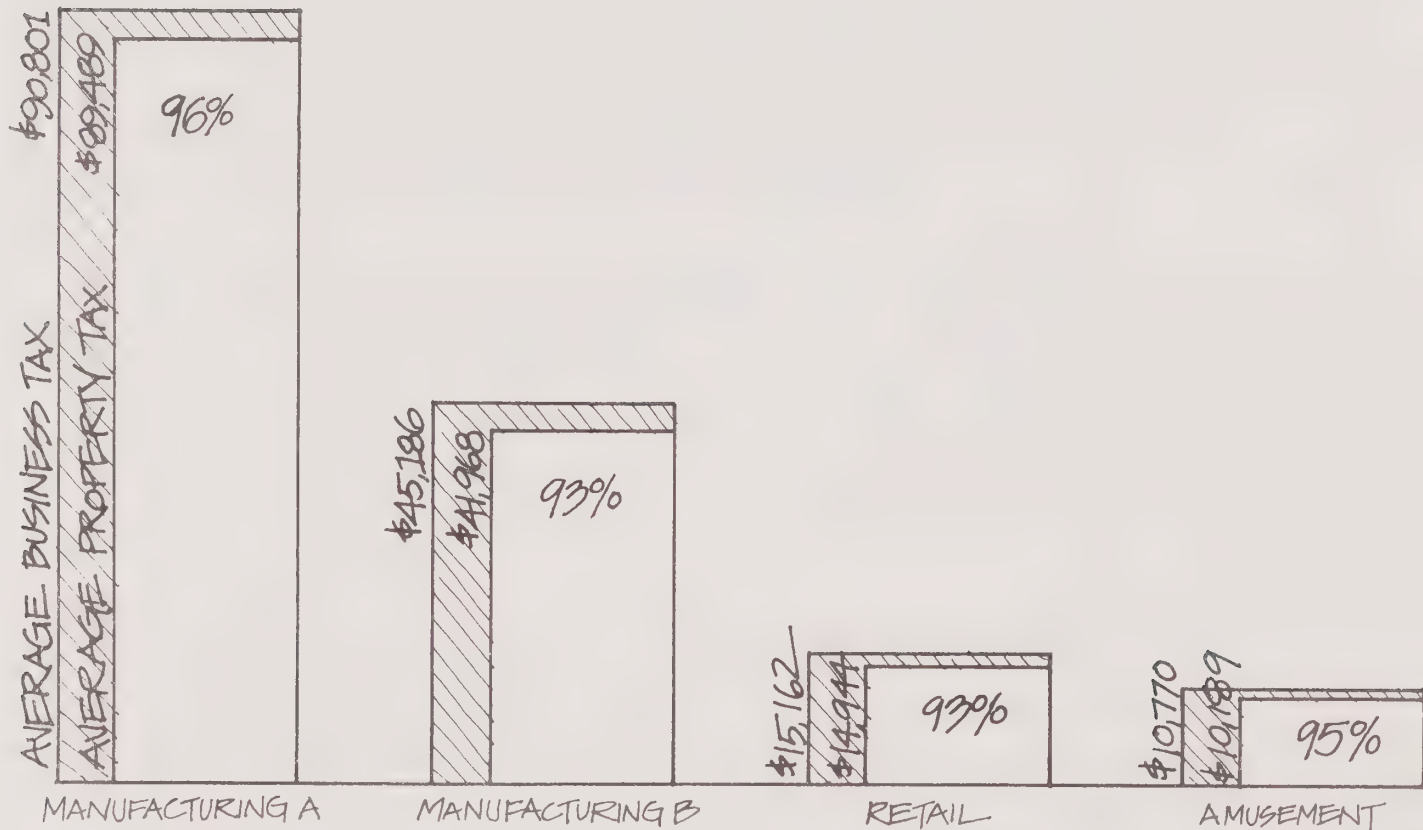
CHART 1
AVERAGE BUSINESS TAXES
FOR HYPOTHETICAL BUSINESSES



The property tax on real and unsecured business property is the most important factor in determining the total business tax. As seen in the following chart, taxes on all types of business property account for approximately 95 percent of the local taxes assessed on the hypothetical businesses.

CHART 2

EFFECT OF THE PROPERTY TAX ON TOTAL BUSINESS TAXES



In locating an enterprise, a business operator will be expected to select a location that will tend to minimize the costs of obtaining energy, labor, and other factors of production; minimize the costs of transporting goods or raw materials and finished products or services; and minimize the costs of land, buildings, and other capital expenditures. If all other conditions are equal, a business operator will locate where these costs, including the cost of local taxes, will be the least.

However, the relocation incentive of the comparative business taxes included in this study would be minimal. Local taxes are only a small part of the costs faced by a business in making a locational decision. In these hypothetical businesses, total taxes represent approximately 2 percent of the annual gross receipts; empirically these taxes represent somewhat less than 2 percent. Moreover, for each of the four hypothetical businesses, the largest difference in taxes among the five Bay Area cities represented only about 1 percent of each business' gross receipts.

This report was designed to test the hypothesis that the local business tax structure is responsible for the decision by business operators to leave a central city and relocate in the surrounding urban area. The final conclusion of this analysis must be that the hypothesis cannot be supported by the evidence.

The report found that there are differences in the business taxes levied among the jurisdictions studied. However, these differences do not appear to be sufficient to account for the observation that businesses have been relocating from the central city to the surrounding urban area. Speculation suggests that because the cost of production factors, other than local business taxes, account for the largest share of total operating costs, these factors would be of much greater significance in explaining the observed exodus of central city businesses.

APPENDIX

RANKING OF CITIES ON
BUSINESS TAXES AND PROPERTY TAX RATES

	<u>Average Business Tax</u>	<u>Property Tax Rate</u>
Highest	Richmond (\$46,011)	Richmond (\$14.827)
↑	Oakland (\$45,743)	Oakland (\$14.6076)
↑	San Francisco (\$41,960)	San Rafael (\$11.66)
↑	San Rafael (\$36,270)	San Francisco (\$11.5)
Lowest	San Mateo (\$34,801)	San Mateo (\$10.6889)

TABLE A-1
 ASSESSED VALUATION OF HYPOTHETICAL MANUFACTURING A (FINISHING) BUSINESS PROPERTY

	(1) Historic Cost	(2) Age (Years)	(3) Inflation Trend (Rate/year)	(4) Expected Life (years)	(5) Replacement Cost (f[(1),(2),(3)])	(6) Depreciation (f[(2),(4),(5)])	(7) Exemption	(8) Full Value (f[(5),(6),(7)])	(9) Assessed Value (f[(8)])
Inventory	\$1,000,000	NA	NA	NA	\$1,000,000	NA	\$500,000	\$500,000	\$125,000
Machinery	\$1,000,000	12	6%	20	\$2,012,196	\$1,207,318	NA	\$804,878	\$201,220
Office Equipment	25,000	2	15%	6	\$ 33,063	\$ 11,021	NA	\$ 22,042	\$ 5,510
Sales Fixtures	-0-	NA	NA	NA	NA	NA	NA	NA	NA
Land	\$ 500,000	NA	NA	NA	NA	NA	NA	NA	\$125,000
Buildings	\$1,000,000	NA	NA	NA	NA	NA	NA	NA	\$250,000
TOTAL ASSESSED VALUATION OF BUSINESS PROPERTY									\$706,730

TABLE A-2
 ASSESSED VALUATION OF HYPOTHETICAL MANUFACTURING B (BASIC) BUSINESS PROPERTY

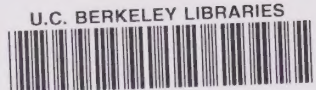
	(1) Historic Cost	(2) Age (Years)	(3) Inflation Trend (Rate/year)	(4) Expected Life (years)	(5) Replacement Cost (f[(1),(2),(3)])	(6) Depreciation (f[(2),(4),(5)])	(7) Exemption	(8) Full Value (f[(5),(6),(7)])	(9) Assessed Value (f[(8)])
Inventory	\$1,000,000	NA	NA	NA	\$1,000,000	NA	\$500,000	\$500,000	\$125,000
Machinery	\$1,000,000	12	6%	20	\$2,012,196	\$1,207,318	NA	\$804,878	\$201,220
Office Equipment	25,000	2	15%	6	\$ 33,063	\$ 11,021	NA	\$ 22,042	\$ 5,510
Sales Fixtures	-0-	NA	NA	NA	NA	NA	NA	NA	NA
TOTAL ASSESSED VALUATION OF BUSINESS PROPERTY									\$331,730

TABLE A-3
ASSESSED VALUATION OF HYPOTHETICAL RETAIL BUSINESS PROPERTY

	(1) Historic Cost	(2) Age (Years)	(3) Inflation Trend (Rate/year)	(4) Expected Life (years)	(5) Replacement Cost (f[(1),(2),(3)])	(6) Depreciation (f[(2),(4),(5)])	(7) Exemption	(8) Full Value (f[(5),(6),(7)])	(9) Assessed Value (f[(8)])
Inventory	\$600,000	NA	NA	NA	\$600,000	NA	\$300,000	\$300,000	\$75,000
Machinery	\$100,000	5	8%	12	\$136,049	\$56,867	NA	\$ 79,362	\$19,840
Office Equipment	\$ 50,000	2	15%	6	\$ 66,125	\$22,042	NA	\$ 44,083	\$11,021
Sales Fixtures	\$100,000	5	10%	8	\$161,051	\$100,657	NA	\$ 60,394	\$15,099
TOTAL ASSESSED VALUATION OF BUSINESS PROPERTY									\$110,960

TABLE A-4
 ASSESSED VALUATION OF HYPOTHETICAL AMUSEMENT (BOWLING ALLEY) BUSINESS PROPERTY

	(1) Historic Cost	(2) Age (Years)	(3) Inflation Trend (Rate/Year)	(4) Expected Life (Years)	(5) Replacement Cost (f[(1),(2),(3)])	(6) Depreciation (f[(2),(4),(5)])	(7) Exemption	(8) Full Value (f[(5),(6),(7)])	(9) Assessed Value (f[(8)])
Inventory	\$ 50,000	NA	NA	NA	\$ 50,000	NA	\$25,000	\$ 25,000	NA
Machinery	\$250,000	8	4%	15	\$342,142	\$182,476	NA	\$159,666	\$39,917
Office Equipment	\$ 10,000	2	15%	6	\$ 13,225	\$ 4,408	NA	\$ 8,817	\$ 2,204
Sales Fixtures	\$ 50,000	5	10%	8	\$ 80,526	\$ 50,328	NA	\$ 30,197	\$ 7,549
Improvements	\$250,000	10	4%	15	\$370,061	\$246,707	NA	\$123,354	\$30,838
TOTAL ASSESSED VALUATION OF BUSINESS PROPERTY									\$80,508



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